

VZCZCXRO0788
OO RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHHI #1116/01 2940341
ZNR UUUUU ZZH
O 210340Z OCT 09
FM AMEMBASSY HANOI
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0342
INFO ASEAN MEMBER COLLECTIVE IMMEDIATE
RUEHHM/AMCONSUL HO CHI MINH CITY IMMEDIATE 0133
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC IMMEDIATE

UNCLAS SECTION 01 OF 04 HANOI 001116

SENSITIVE
SIPDIS
SIPDIS
USTR FOR D. BISBEE, R. BAE

E.O. 12958: N/A
TAGS: [ETRD](#) [VM](#) [XD](#) [BEXP](#) [ECON](#) [EAGR](#) [EFIN](#)
SUBJECT: AMBASSADOR'S MESSAGE TO UNDERSECRETARY HORMATS ON OUR
ECONOMIC AGENDA WITH VIETNAM

HANOI 00001116 001.2 OF 004

¶1. (SBU) INTRODUCTION: I strongly believe that we have an unprecedented window of opportunity today to influence the outcome of Vietnam's fast transformation through our economic engagement. Few will dispute that our work here over the last 20 years has had a profound effect in Vietnam. Politically and socially, Vietnam lags behind, and we have seen some recent human rights setbacks, but I am convinced that change is inevitable. The engine behind it is, for the most part, economic. Vietnam aspires to improve its business climate and economic competitiveness, and it is our role to continue to make the connection between these goals and respect for civil liberties, better governance, labor freedoms, public accountability and the rule of law, while reminding Hanoi that human rights issues can create problems for our economic agenda. In order to shape change, we must stay engaged. This is not the time to step back, but to push even further. Continued engagement on the economic front will help ensure that a prosperous, better governed society, and a better partner for the United States, emerges in Vietnam.

¶2. (U) I encourage you to consider including a visit to Vietnam in your schedule. Your presence here will advance our ability to influence the pace and outcome of Vietnam's transformation at this critical time. Mission Vietnam and I sincerely welcome and encourage your visit, and hope to see you here over the next year.

SUMMARY: BILATERAL TRADE AND INVESTMENT STRONG, BUT CHALLENGES
REMAIN

¶3. (SBU) The Government of Vietnam (GVN) has managed the global economic crisis well, emerging as one of the few economies in the region with positive GDP growth this year. U.S. companies have continued to show strong interest in Vietnam throughout the crisis - the U.S. has been the largest foreign investor in Vietnam in ¶2009. Despite the economic challenges of the past year, Vietnam has continued to maintain a commendable record on opening its market and undertaking other economic-related reforms. The GVN is committed to deepening its trade relations with the United States, and has been an engaged partner in Bilateral Investment Treaty (BIT) talks and our bilateral Trade and Investment Framework Agreement (TIFA) negotiations. At our urging, Vietnam agreed to join Trans Pacific Partnership (TPP) negotiations as an associate member.

¶4. (SBU) Vietnam genuinely yearns to be a 21st century trading

partner in the global economy, especially with the United States, but is limited in various degrees by its human rights record, inadequate labor laws, deficient infrastructure, wide-spread corruption, and clunky vestiges of the former centrally planned economy. Still, the GVN has shown real commitment on reform in key areas, such as education and competitiveness, and has welcomed USG assistance on a range of issues. As expected in a growing trade relationship, there are unsettled trade issues, for example, GSP, catfish, and a potentially precedent-setting plastic bags countervailing duty case for Vietnam; market access for beef, mandatory biotech labeling, and better IPR enforcement for the U.S. For now the two sides are working through existing mechanisms to resolve these issues. In my view, the best way to keep Vietnam on the path of economic reform and encourage true political reform is to maintain active, high-level engagement with Vietnam on the full range of economic issues. End summary.

VIETNAM WEATHERS THE CRISIS, TRADE WITH U.S. CONTINUES TO THRIVE

¶15. (U) Although Vietnam's GDP grew at only 3.1 percent in the first quarter of 2009 - the slowest growth in a decade - it accelerated in the second and third quarters to 4.5 percent and 5.8 percent, respectively. Full-year projections for 2009 GDP growth are about five percent, making Vietnam one of the few economies in the region with positive growth this year. GDP growth projections for 2010 range from 6.5 to 8.5 percent. Annual inflation is expected to stay below seven percent. Through September 2009, Vietnam's

HANOI 00001116 002.2 OF 004

exports were down by 14 percent, a much lower drop than had been expected.

¶16. (SBU) Analysts credit the GVN's swift policy response to the economic downturn for easing the effects of the crisis and promoting a relatively strong recovery. In January 2009, the GVN announced an economic stimulus plan to promote consumption and investment, comprised of infrastructure investment, tax cuts and deferments, and a four percent interest rate subsidy for selected commercial loans. Most analysts estimate actual stimulus disbursements between \$2 to \$3 billion USD. The most important current risk is that the growth of the money supply and credit under the stimulus plan will lead to increased inflation. There are also concerns about how Vietnam will finance its increasing budget deficit - a consequence of stimulus spending combined with decreasing revenues due to tax cuts and deferments.

¶17. (SBU) U.S. companies have continued to show strong interest in Vietnam throughout the economic crisis, and U.S.-Vietnam bilateral trade and investment continue to thrive. Since the 2001 U.S.-Vietnam Bilateral Trade Agreement (BTA), bilateral trade has increased from \$2.91 billion in 2002 to \$15.7 billion in 2008. Agriculture trade is particularly strong: U.S. agriculture exports to Vietnam reached a record \$1 billion in 2008. The U.S. has been the largest foreign investor in Vietnam in 2009, with total new and additional FDI of \$3.95 billion. The U.S. was Vietnam's second largest trade partner overall, after China, in the first eight months of 2009.

VIETNAM STAYS THE COURSE IN TRADE POLICY

¶18. (SBU) Despite the challenges of the global financial crisis, Vietnam for the most part has stuck to its free-market stance. The GVN finished free trade deals in the second half of 2008 with Japan, Australia and New Zealand. Vietnam is pursuing an equally

ambitious agenda with the United States. We will hold our third round of Bilateral Investment Treaty discussions in mid-November in Washington. We continue to engage Vietnam on a range of trade issues under the bilateral Trade and Investment Framework Agreement (TIFA) meetings. USTR Kirk held a ministerial TIFA with Vietnam's Minister of Industry and Trade Hoang in Singapore in July. In February 2009 Vietnam announced it was joining the Trans Pacific Partnership (TPP) negotiations with Australia, New Zealand, Singapore, Peru, Chile, Brunei, Singapore and the United States as an associate member.

CHALLENGES AHEAD AND THE USG RESPONSE

¶9. (SBU) A number of political and economic challenges could stall Vietnam's progress on trade and investment liberalization. On the political side, recent arrests of lawyers, journalists, and dissidents, pressure on independent organizations, and tightening restrictions on the media have had an adverse impact on our relationship as a whole, and make it more difficult to pursue our trade agenda with Vietnam. Further, the recently enacted Decision 97, legislation that severely restricts the freedoms of independent research organizations, will discourage research and development investment here. We must continue to emphasize to the GVN the degree to which human rights abuses undermine our ability to move forward on a positive bilateral trade agenda.

¶10. (SBU) Labor reform is also a challenge, and is critical to approval of Vietnam's application for the Generalized System of Preferences (GSP). Labor will also figure prominently at the next TIFA talks, as well as possible future TPP negotiations and U.S.-Vietnam Market Economy Status discussions. Vietnam is currently revising its labor laws, including the Trade Union Law, which the U.S. supports through our bilateral Labor Dialogue and technical assistance from USAID and the Department of Labor.

HANOI 00001116 003.2 OF 004

¶11. (SBU) U.S. investors and businesses in Vietnam have urged the GVN to focus on improving the business climate, including opening industries to foreign competition, improving infrastructure, reforming state-owned enterprises, reducing red tape, and strengthening anti-corruption efforts. Mission Vietnam has pressed the same message, emphasizing the need for administrative reforms, trade liberalization, and increased transparency. Over the past nine years, the USG has spent \$41 million in the highly-successful Support for Trade Acceleration (STAR) and Vietnam Competitiveness Initiative (VNCI) programs.

¶12. (SBU) Post has also urged Vietnam to move ahead with education reform, which has become a serious drag on economic development. Vietnam's response has been encouraging. The GVN has embraced education reform and is seeking increased investment in this sector. The U.S.-Vietnam Education Task Force, established in June 2008, has recently completed a bilateral report to be presented to leaders in both countries recommending concrete steps to improve university education in Vietnam.

BILATERAL TRADE ISSUES: REAL BUT MANAGEABLE

¶13. (SBU) As expected in a growing trade relationship, both the U.S. and Vietnam have several outstanding issues we want to see resolved positively. For the Vietnamese, current priorities are GSP review, catfish, and the recent plastic bags countervailing duty (CVD) case against Vietnam, which is the first of its kind and may open the door to further CVD cases in the future. Immediate

concerns for the U.S. are improved intellectual property protection, mandatory biotech labeling, and market access for U.S. beef. We want to continue to reassure the GVN of our continued commitment to deepen bilateral economic ties, and note that some trade disagreements are normal in a maturing bilateral trade relationship.

¶14. (SBU) Generalized System of Preferences (GSP): Vietnam requested designation as a GSP beneficiary in May 2008. We subsequently informed the GVN it needed to address key elements related to worker rights issues and continue to make progress on intellectual property rights (IPR) issues before we could move forward with this request.

¶15. (SBU) Catfish: Vietnamese seafood exporters, the GVN, and U.S. importers of Vietnamese seafood are concerned about the fate of trade in pangasius (tra and basa) fish. The 2008 Farm Bill shifted regulatory jurisdiction over "catfish" to USDA but left open the definition of catfish. A previous Farm Bill mandated that Vietnamese pangasius fish could not be called catfish in the United States, which has created ambiguity as to what species of fish the 2008 Farm Bill will eventually cover. A resolution by USDA of the catfish definition is expected in early 2010. Foreign sales of these fish were a bright spot for Vietnam in 2008, with both export value and volume up worldwide, and exports to the United States totaling \$70 million. In turn, Vietnamese seafood exporters are large consumers of U.S. feed (exports of U.S. grains and feed to Vietnam commonly used in the seafood industry reached \$192.6 million in 2008, a 44 percent increase from 2007).

¶16. (SBU) Countervailing duty (CVD) case: The Department of Commerce announced a positive preliminary determination in the CVD investigation on imports of plastic bags from Vietnam in August 2009. A Commerce team will be in Vietnam October 30-November 21 to complete its investigation, and will make a final determination in January 2010.

¶17. (SBU) Market access for U.S. beef: Vietnam currently restricts

HANOI 00001116 004.2 OF 004

imports of beef and beef products from the U.S. to animals less than 30 months old. In June 2009, the GVN made a partial offer (allowing boneless beef over 30 months), which we have informed them is not acceptable. We want to continue to urge full opening of the Vietnamese market to U.S. beef.

¶18. (SBU) Mandatory biotech labeling: Despite considerable USG support to assist the GVN in modernizing its food and food safety regimes, including support for the drafting of new food safety and biosafety laws, Vietnam's current draft legislation requires mandatory labeling of all genetically modified food and agricultural products. We have requested that the government remove all mandatory labeling provisions in the draft legislation.

¶19. (SBU) Intellectual property rights (IPR): Vietnam's National Assembly recently passed an amendment to the criminal code that fails to include all exclusive rights for copyrights and related rights, and may fall short of Vietnam's obligations under the WTO TRIPs agreement and the U.S. Vietnam Bilateral Trade Agreement. We are working closely with the GVN as it strives to improve both IPR legislation and enforcement.
Michalak